

Dear Contractor:

On the reverse side of this document is a letter prepared by the Nebraska Department of Revenue to assist you in explaining to your customers the requirements for the taxation of contractor labor. A copy of this letter may be given to any customer who has questions regarding either your requirement to collect sales tax or how the amount of tax must be calculated. If you or your customers have any questions, please contact Taxpayer's Assistance at 1-800-742-7474 (toll free in Nebraska and Iowa) or 1-402-471-5729, or contact one of the department's regional offices listed below.

Changes to the taxation of contractors were made by the 2006 Legislature (LB 968). **These changes take effect on July 1, 2006.** More information on these changes can be obtained from the department's Web site at: www.revenue.ne.gov.

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Dear Nebraska Taxpayer:

This letter has been prepared by the Nebraska Department of Revenue to explain the requirements for sales tax imposed on contractors. Beginning July 1, 2006, most contractor labor performed on residential dwellings is exempt from tax. Contractor labor performed on commercial buildings and structures generally remains subject to tax.

On taxable labor projects, **Option 2 and Option 3** contractors are required to collect tax on a percentage of the sales price for building materials and contractor labor. The amount of contractor labor subject to tax is set **by statute** at 60% of the total selling price of building materials and construction services, with a statutorily determined allowance for tax paid by the contractor on its building materials. Based on these statutory requirements, this department has calculated percentages which Option 2 and Option 3 contractors must use to determine the taxable amount on each billing, **regardless** of the actual individual amounts listed on the contractor's invoice (e.g., materials, labor, equipment rental, etc.). These percentages take into account the allowance for tax paid by the contractor on its building materials. The percentages for each sales tax rate (state and local) are listed below.

Total Tax Rate (at project location)	Contractor Labor Percentage
7.0%	57.2%
6.5%	57.4%
6.0%	57.6%
5.5%	57.8%

Example: An Option 2 or Option 3 contractor is hired to replace the windows in a customer's place of business. The business is located in a city with a 1.5% local sales tax rate, for a total sales tax rate of 7.0%. A sample billing for this project is shown below:

Materials (windows and supplies)	\$5,000.00
Scaffold rental	200.00
Labor	<u>1,000.00</u>
Total Sales Price	\$6,200.00
Taxable Contractor Labor	
(\$6,200.00 X 57.2%=\$3,546.40)	
Sales tax (\$3,546.40 x 7.0%)	<u>248.25</u>
Total Amount Due	<u>\$6,448.25</u>

In addition to contractor labor performed on residential dwellings, Option 2 and Option 3 contractors **will not collect sales tax** on contractor labor performed in connection with commercial projects for the first or original construction of a building or the remodel or repair of an existing building, unit of a building, or structure when the remodel or repair project costs at least 50% of the current value of the building, unit, or structure. All other contractor labor performed on commercial buildings or structures is subject to tax.

Option 1 contractors are statutorily barred from using the contractor labor percentages required for Option 2 and Option 3 contractors. Option 1 contractors will **continue** to collect sales tax on the **total amount billed** for taxable labor projects. On exempt contractor labor projects, Option 1 contractors will only collect sales tax on the sales price of their building materials, provided the materials are separately stated on the invoice.

If you are the owner-occupant of a residential unit in a building containing three or more units (e.g., condominium), you may be entitled to a refund of the sales tax paid on charges for contractor labor performed on such unit. For additional information regarding the taxation of amounts billed by contractors, visit our Web site at www.revenue.ne.gov or contact Taxpayer's Assistance at 1-800-742-7474 (toll free in Nebraska and Iowa) or 1-402-471-5729.